

Testimony of Mr. William V. (Bill) Hanson
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Before the U.S. House of Representatives Committee on Agriculture
Subcommittee on General Farm Commodities and Risk Management

Hearing on the Overview of the Federal Crop Insurance System

2:30 p.m., March 15, 2006
1300 Longworth House Office Building

Mr. Chairman and Ranking Member Etheridge, thank you for this opportunity to testify.

My name is Bill Hanson and I'm a Kansan. I've worked as a farmer, teacher, and principal. I've also worked for FSA and the Federal Crop Insurance Corporation, including as Director of the Reinsurance Contract Division in Washington.

For 14 years I have owned my own crop insurance agency, and now serve as the Chairman of the American Association of Crop Insurers, Agents Division, and co-manager of the Crop Insurance Professionals Agency – CIPA – which represents agents around the country.

Crop insurance agents are on the front line of delivering this critical risk management tool to the American producer. We are where the rubber meets the road.

The Agricultural Risk Protection Act, or ARPA, passed by Congress in 2000, is the engine driving progress made in risk management. And while there is still work to be done, ARPA has already provided producers greater access to more affordable and better quality coverage. Thank you for passing ARPA.

Thank you also for rejecting harmful cuts to crop insurance in last year's Administration budget. On behalf of CIPA, I respectfully urge you to reject these cuts again this year.

I also want to say we appreciate Administrator Gould. He has shown strong interest in working with RMA's partners, including agents, in tackling program challenges while building on our success. We agents hope to work with the Administrator and the FCIC Board in a more formal capacity in the future.

Today I focus my remarks on three issues.

First, PRP. PRP is a subtle but no less serious threat to crop insurance. It was implemented using legal authority that had not been used for nine years and which

no one ever thought allowed rebating. In 2000, RMA rightly noted that the program prohibited rebates, consistent with the laws of 48 states.

After some debate last year as to whether PRP is a rebate, RMA in a recent memorandum put the question to rest: PRP is a rebate.

Mr. Chairman, until PRP, Federal Crop Insurance – with one narrow exception created by Congress – joined 48 states in prohibiting rebates. And with good reason, including concerns about: discrimination; the integrity and oversight of insurance; the financial soundness of insurance providers; and preserving consumer choices and the quality of service consumer choices help ensure.

PRP raises all these concerns. But it is PRP's discriminatory and misleading approach that is most troubling.

When a farmer signs up for PRP, he thinks he is guaranteed a rebate. But four farmers could walk into four agencies one year after they bought their policies and each walk away with different outcomes, including: (1) you are in the wrong state to get a rebate; (2) RMA said your company could not pay a rebate; (3) your company decided it would not pay a rebate; and (4) we promised you a rebate, but don't know if we can pay that much – and may not know for another year...two years after you bought your policy.

Playing games with farmers gives everyone in crop insurance a bad name. I do not believe Congress intended this. I thank Congress for denying funding for PRP in last year's appropriations bill. And CIPA urges Congress to suspend PRP for the 2007 and 2008 reinsurance years so the Committee can examine the program.

Second, RMA has indicated it plans to expand a narrow rebating exception provided by Congress. The current exception allows cooperatives or trade associations – but only those located in states that permit rebating, or adjacent states – to receive a fee from an insurance provider and then use the fee to buy CAT policies for members. But the expansion appears to allow the exception for rebating to swallow the rule, permitting unlimited rebating of any kind, in every state, and without any cooperative or trade association involved as long as the insurance provider organizes as a co-op.

I do not believe Congress intended this, and believe it will result in discrimination in a program designed to treat farmers equally. I urge Congress to request a formal rulemaking, with notice and opportunity for comment to let some sunshine in on this plan.

Crop insurance is not price-based competition, but service-based competition – with RMA setting farmer premiums. So when price-based competition is introduced, the unintended consequence is a race to the bottom relative to service. And, as

companies feel the pinch, they do business in fewer places or just exit, meaning fewer choices for agents and farmers.

Third, concerning the elimination of waste, fraud, and abuse, agents are 100 percent committed because, along with the program and the farmer, our reputation and livelihoods are on the line, too. We applaud RMA for working with us to arrive at a conflict of interest policy that is, for the most part, workable in tackling abuse. But my concern is the same as it would be with any good institution dealing with a few bad actors. Don't use a sledgehammer when a scalpel will do. For instance, if a senior citizen buys a policy – and many of our farmers are seniors – but gives us the wrong social security number, don't cancel his policy for a mistake after he just lost his entire crop. Be certain it's a mistake, sure. But automatically cancel his policy? That's not right.

One way to stop abuse is data mining. Another is to ensure that yield determinations and rate settings for policies are accurate. This is a problem regarding GRIP and GRP policies, which are intended to curb abuse – but can actually cause abuse if based on bad data. Let's work together on these issues to find commonsense solutions to problems we both have a stake in solving.

Thank you again for this opportunity.